

AR43

ANNUAL
REPORT
1971

FINLAYSON ENTERPRISES LTD.

FINLAYSON ENTERPRISES LTD.

DIRECTORS

G. A. BODDY

F. B. BROOKS-HILL

R. W. FINLAYSON

R. H. HOPPE

D. A. McINTOSH, Q.C.

H. SUTHERLAND

R. G. WILSON

OFFICERS

President - - - - - R. W. FINLAYSON

Vice-President - - - - - G. A. BODDY

Secretary - - - - - H. SUTHERLAND

REGISTRAR AND TRANSFER AGENT

CANADA PERMANENT TRUST COMPANY

TORONTO, ONTARIO

WINNIPEG, MANITOBA

BANKERS

THE BANK OF NOVA SCOTIA

TORONTO, ONTARIO

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FINLAYSON ENTERPRISES
LTD.

INTERIM REPORT
TO SHAREHOLDERS

FOR THE SIX MONTHS ENDED
JUNE 30, 1970

CORRECTION:

	<u>June 30, 1970</u>	<u>June 30, 1969</u>
Earnings per Class "B" Share on Operating Profit.....	22.0 cents	52.9 cents
Earnings per Class "B" Share on Net Profit	179.1 cents	52.9 cents

To the Shareholders of
FINLAYSON ENTERPRISES LTD.

The following statements set forth consolidated sales, profits after taxes, net profits per "B" share for the first half of 1970 as compared with the similar period in 1969 and source and application of funds as taken from the Company's unaudited accounts.

While consolidated sales fell modestly there was a comparatively large decline in Griffiths-Kerr and Grover sales. Wood sales increased slightly.

Largely as a result of higher expenses, the net profit on operations after all changes in the current six months declined to \$25,170 from \$44,232 for the first half of the year 1969. Examination of these increased costs has been made and where possible these will be reduced.

As of June 30 the Dunhill subsidiary was sold and as a result an extraordinary profit of \$96,915 was realised. At the date of writing this report, a portion of the monies obtained has been invested in short term securities. The Company now owns short term securities amounting to \$2,250,000.

Despite the loss of Dunhill sales, increased profits are forecast for the last half of the year.

August 20, 1970 R. W. FINLAYSON,
President

FINLAYSON ENTERPRISES LTD.

Consolidated Statement of Profit and Loss
(Unaudited)

	Six Months Ended	
	June 30, 1970	June 30, 1969
Sales	\$1,393,708	\$1,470,146
Profit on Operations	\$ 25,170	\$ 44,232
Provision for Income Taxes	—	—
Operating Profit After Income Taxes	\$ 25,170	\$ 44,232
Profit on Disposal of Subsidiary	96,915	—
Net Profit	\$ 122,085	\$ 44,232
Class "B" Shares Outstanding	61,684	61,684
Earnings per Class "B" Share on Operating Profit	21.4 cents	52.9 cents
Earnings per Class "B" Share on Net Profit	117.1 cents	52.9 cents
Dividend Paid per Class "B" Share	30 cents	30 cents

Consolidated Statement of Source and Application of Funds
(Unaudited)

	Six Months Ended	
	June 30, 1970	June 30, 1969
Source of Funds		
Consolidated Net Profit	\$ 122,085	\$ 44,232
Add: Depreciation, a non-cash outlay	11,412	10,299
Funds Provided from Operations	\$ 133,497	\$ 54,531
Special Refundable Corporation Tax	4,214	—
Total Source of Funds	\$ 137,711	\$ 54,531
Application of Funds		
Net Addition to Fixed Assets	\$ 5,382	\$ 18,264
Redemption of Class "C" Shares	—	61,684
Dividend — Class "A" Shares	7,260	7,260
— Class "B" Shares	18,505	18,505
— Class "C" Shares	4,335	4,318
Total Application of Funds	\$ 35,482	\$ 110,031
Increase in Working Capital	\$ 102,229	\$ (55,500)
Working Capital at Beginning of Period	2,341,552	2,437,673
Working Capital at End of Period	\$2,443,781	\$2,382,173

D.W., Aug. 19, 1970

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Cap report

**FINLAYSON ENTERPRISES
LTD.**

**INTERIM REPORT
TO SHAREHOLDERS**

**FOR THE SIX MONTHS ENDED
JUNE 30, 1971**

To the Shareholders of

FINLAYSON ENTERPRISES LTD.

The following statements set forth the improvement in operations in the first half of the year 1971 as compared to the similar period 1970. Despite the sale of the Dunhill subsidiary, operating profit increased from \$25,170 to \$58,473.

Griffiths Kerr and Wood sales have been buoyant. With the gain in residential construction, particularly in the Toronto area, Grover sales have increased markedly in the last few months. The sales gain in these units coincided with an improvement in profit margins and with a reduction in expenses. The budget forecasts a continuation of the trends noted above and thus the Company should experience good profits in the second half.

An offer has been made by Finlayson Enterprises Ltd. and has been accepted, to purchase all the outstanding shares of Beauty Industries Ltd. for \$1,500,000. The latter Company is an important factor in manufacturing and supplying baby clothing to the Canadian market. It is expected that this acquisition will materially add to the Company's consolidated profits.

August 3, 1971

R. W. FINLAYSON,
President

FINLAYSON ENTERPRISES LTD.

Consolidated Statement of Profit and Loss

(Unaudited)

	Six Months Ended June 30, 1971	June 30, 1970
Sales	\$1,382,639	\$1,393,708
Profit on Operations	\$58,473	\$25,170
Provision for Income Taxes	—	—
Operating Profit After Income Taxes	\$58,473	\$25,170
Profit on Disposal of Subsidiary	—	96,915
Net Profit	\$58,473	\$122,085
Class "B" Shares Outstanding	61,684	61,684
Earnings per Class "B" Share on Operating Profit	77 cents	22.0 cents
Earnings per Class "B" Share on Net Profit	77 cents	179.1 cents
Dividend Paid per Class "B" Share	30 cents	30 cents

Consolidated Statement of Source and Application of Funds

(Unaudited)

	Six Months Ended June 30, 1971	June 30, 1970
Source of Funds		
Consolidated Net Profit	\$58,473	\$122,085
Add: Depreciation, a non-cash outlay	9,955	11,412
Funds Provided from Operations	\$68,428	\$133,497
Special Refundable Corporation Tax	—	4,214
Total Source of Funds	\$68,428	\$137,711
Application of Funds		
Net Addition to Fixed Assets	\$16,169	\$5,362
Dividend — Class "A" Shares	7,260	7,260
— Class "B" Shares	18,505	18,505
— Class "C" Shares	3,701	4,335
Total Application of Funds	\$45,635	\$35,462
Increase in Working Capital	\$22,793	\$102,229
Working Capital at Beginning of Period	2,279,834	2,341,552
Working Capital at End of Period	\$2,302,627	\$2,443,781

To the Shareholders of

FINLAYSON ENTERPRISES LTD.

Your Company's net profit in the year 1971 increased to \$196,249 from \$122,130 in the previous year and was at the highest level since 1968.

As reported to the shareholders in the half yearly statement, all the outstanding shares of Beauty Industries Limited were purchased. This Company contributed a substantial profit in the last five months of 1971. The other two major operations, Griffiths Kerr and Wood, had excellent results, both in sales and profits. The remaining subsidiary, Grover Cast Stone, showed a modest profit. As at February 29, 1972, the operating assets of the Grover subsidiary were sold at a satisfactory price.

Despite the redemption of all outstanding Class "C" shares, the current ratio at the year end was 2.6 to 1.0 and the current assets included a readily realizable investment of \$1,000,000. It should be noted that the shareholders' equity in the year declined from \$2,323,875 to \$1,799,191. The latter figure eliminates the excess of cost of shares of the Beauty subsidiary over the book value. As at December 31, 1971, the new common shares had a net book worth of \$10.12 per share and earned \$2.82 per share during that year.

The budget for the year 1972 forecasts both greater sales and increased profits for the three major operating units. Results for the first two months of 1972 have been very satisfactory. Despite having used a major portion of the tax loss carried forward, the net profit after taxes should show an improvement in the year 1972.

R. W. FINLAYSON
President

March 24, 1972

FINLAYSON ENTERPRISES LTD.

AND SUBSIDIARIES

Consolidated Balance Sheet

(With comparative figures for 1970)

ASSETS

	1971	1970
CURRENT		
Cash.....	\$ 100,887	\$ 7,601
Term deposits.....	—	1,150,000
Investment in income debenture, at cost.....	1,000,000	1,000,000
Marketable securities, at cost (market value \$10,700).....	13,257	—
Accounts receivable.....	835,021	339,203
Merchandise inventories, at lower of cost and net realizable value.....	1,024,694	508,240
Cash value of life insurance policies.....	—	43,125
Prepaid expenses.....	35,791	36,604
TOTAL CURRENT ASSETS.....	3,009,650	3,084,773
FIXED		
Equipment, automotive equipment and leasehold improvements, at cost.....	509,329	184,272
Less: Accumulated depreciation.....	376,711	140,231
TOTAL FIXED ASSETS.....	132,618	44,041
OTHER		
Cash value of life insurance policies.....	45,822	—
Approved on behalf of the Board:		
R. W. FINLAYSON, <i>Director</i>		
G. A. BODDY, <i>Director</i>		
	<u>\$3,188,090</u>	<u>\$3,128,814</u>

AUDITORS' REPORT

To the Shareholders of
FINLAYSON ENTERPRISES LTD.

We have examined the Consolidated Balance Sheet of FINLAYSON ENTERPRISES LTD. and Subsidiary Companies as at 31 December 1971 and the Consolidated Statements of Earned Surplus, Profit and Loss and Source and Application of Funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, these Consolidated Financial Statements present fairly the financial position of the Companies as at 31 December 1971 and the results of their operations and the source and application of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

TORONTO, ONTARIO, 9 March 1972

DUNWOODY & COMPANY
Chartered Accountants

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

as at 31 December 1971

1. PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the accounts of all subsidiary companies. During the year a subsidiary engaged in the manufacture of infants' wear was acquired and the Consolidated Statement of Profit and Loss includes the results of operations of this subsidiary from the date of acquisition, 1 August 1971.

2. LONG TERM DEBT

7% unsecured debenture.....	\$300,000
Current portion.....	60,000
	<u>\$240,000</u>

The 7% unsecured debenture is repayable in equal amounts on the 8th of August in each of the years 1972 to 1976 inclusive. The debenture is held by a Director of the Company.

3. SHAREHOLDERS' EQUITY

(a) During the year the Company obtained Supplementary Letters Patent giving effect to the following:

- (i) reclassification of the 16,133 authorized Class "A" shares all of which were issued and the 100,000 authorized Class "B" shares both issued and unissued to common shares of no par value.

ENTERPRISES LTD.

COMPANIES

as at 31 December 1971
at 31 December 1970)

LIABILITIES

	1971	1970
CURRENT		
Bank loan.....	\$ 367,000	\$ 473,000
Accounts payable and accrued charges.....	633,845	314,692
Income and withholding taxes.....	88,054	17,247
Current portion of long term debt.....	60,000	—
TOTAL CURRENT LIABILITIES.....	1,148,899	804,939
LONG TERM DEBT, note 2.....	240,000	—
	1,388,899	804,939
SHAREHOLDERS' EQUITY, note 3		
SHARE CAPITAL		
<i>Authorized</i>		
2,540,026 6% cumulative preferred shares of par value \$1 each, redeemable at the amount paid up thereon		
116,133 common shares of no par value		
<i>Issued and fully paid</i>		
1,011,621 preferred shares.....	1,011,621	
77,817 common shares.....	281,671	
16,133 Class "A" shares }		
61,684 Class "B" shares }		281,671
370,104 Class "C" shares.....		370,104
	1,293,292	651,775
EARNED SURPLUS		
Unappropriated.....	505,899	1,481,792
Restricted as to distribution to shareholders.....	—	190,308
	505,899	1,672,100
TOTAL SHAREHOLDERS' EQUITY.....	1,799,191	2,323,875
	\$3,188,090	\$3,128,814

(ii) reduction of the capital by the cancellation of 560,412 Class "C" shares redeemed and restoration of the applicable restricted surplus of \$560,412 to unappropriated surplus.

(iii) reclassification of all of the remaining unissued Class "C" shares to 6% cumulative preferred shares of par value \$1 each, redeemable at the amount paid up thereon.

(b) During the year 370,104 Class "C" shares were redeemed for a cash consideration of \$370,104 and 1,011,621 preferred shares of par value \$1 each were issued as a stock dividend on the common shares.

4. CLASSES OF BUSINESS

As required by the Canada Corporations Act the Directors are of the opinion that the proportion of sales from the different classes of business is as follows:

	1971	1970
Manufacturers' Agents.....	\$2,621,328	\$2,303,352
Manufacture of Concrete Products.....	280,283	243,055
Manufacture of Infants' Wear.....	777,687	—
	\$3,679,298	\$2,546,407

5. DIRECTORS' REMUNERATION

As defined in the Canada Corporations Act the aggregate remuneration of the seven Directors of the Company as Directors amounted to \$2,000 (1970—\$2,000); the aggregate remuneration of the four Officers of the Company as Officers amounted to \$74,917 (1970—\$80,000); three of the Officers of the Company are also Directors and one of the Directors received \$30,617 from a subsidiary company as an Officer of that Company.

6. NET PROFIT FOR THE YEAR

The net profit for the year has been increased by approximately \$56,000 through the elimination of income taxes as a result of both the application of losses carried forward and through timing differences in the recording of depreciation for tax purposes and financial reporting in certain of the group companies. In addition, certain of the Companies' investment income is not subject to taxation. Losses of approximately \$42,000 are available in certain of the group companies for application against future years' profits.

7. EARNINGS PER COMMON SHARE

Earnings per common share are calculated using the weighted daily average number of shares outstanding during the respective fiscal years, after giving retroactive effect in December 1970 to the reclassification of Class "A" and Class "B" shares into common shares on 15 December 1971 and the stock dividend in the form of preferred shares on 22 December 1971.

FINLAYSON ENTERPRISES LTD. AND SUBSIDIARY COMPANIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

	1971	1970
Earnings per common share		
Operating profit after provision for income taxes	\$2.82	\$.04
Extraordinary items	—	1.00
Net profit for year	\$2.82	\$1.64

Losses carried forward and depreciation timing differences as referred to in Note 6 had the effect of increasing operating profit after provision for income taxes by \$.90 per common share in 1971 (Nil—1970).

Earnings per common share calculated as though the reclassification of the Class "A" and Class "B" shares into common shares and the stock dividend in the form of preferred shares had taken place on 1 January 1971 and reflecting this adjustment retroactively to 1 January 1970 would be as follows:

	1971	1970
Earnings per common share		
Operating profit after provision for income taxes	\$1.74	(\$.49)
Extraordinary items	—	1.28
Net profit for year	\$1.74	\$.79

On this basis losses carried forward and depreciation timing differences as referred to in Note 6 had the effect of increasing operating profit after provision for income taxes by \$.72 per common share in 1971 (Nil—1970).

8. FOREIGN EXCHANGE

Liabilities in foreign currencies are converted at the rates of exchange in effect as at 31 December 1971.

9. CONTINGENT LIABILITY

One of the group companies has received and is appealing income tax reassessments totalling approximately \$215,000 for the years 1966 to 1968. No provision has been made in the accounts for these reassessments as it is the opinion of counsel that the Company should probably be successful in having the reassessments set aside.

10. SUBSEQUENT EVENT

Subsequent to the year end, one of the group companies entered into an agreement for the sale of all its undertaking, property and assets in the concrete products business with the exception of cash on hand, investments and inter-group debts. The net consideration to the Company is expected to be about \$90,000.

11. UNFUNDED PENSION BENEFITS

The unfunded past service liability of the Company, which is required to be funded in equal instalments of \$3,504 over the next twelve years, amounted to approximately \$42,000 as at 31 December 1971.

Consolidated Statement of Earned Surplus for the Year Ended 31 December 1971 (With comparative figures for the year ended 31 December 1970)

	1971	1970
UNAPPROPRIATED		
Balance, beginning of year	\$1,481,792	\$1,458,689
Transferred from restricted surplus, note 3	560,412	—
Net profit for year	196,249	122,130
	<u>2,238,453</u>	<u>1,580,819</u>
Cash dividends paid during year—		
Class "A" shares	14,520	14,520
Class "B" shares	18,505	18,505
Class "C" shares	3,701	4,318
Stock dividend on common shares, note 3	1,011,621	—
Transferred on redemption of Class "C" shares under Section 62 of the Canada Corporations Act	370,104	61,684
15% tax on election under Section 105 (c) of the Income Tax Act	7,500	—
Excess of cost of shares of subsidiary over book value, patents and formulae—written off	306,603	—
	<u>1,732,554</u>	<u>99,027</u>
Balance, end of year	<u>505,899</u>	<u>1,481,792</u>
RESTRICTED AS TO DISTRIBUTION TO SHAREHOLDERS		
Balance, beginning of year	190,308	128,624
Transferred during year	370,104	61,684
	<u>560,412</u>	<u>190,308</u>
Transferred to unappropriated surplus, note 3	560,412	—
Balance, end of year	—	190,308
BALANCE, end of year	<u><u>\$ 505,899</u></u>	<u><u>\$1,672,100</u></u>

FINLAYSON ENTERPRISES LTD.
AND SUBSIDIARY COMPANIES

Consolidated Statement of Profit and Loss for the Year Ended 31 December 1971
(With comparative figures for the year ended 31 December 1970)

	1971	1970
SALES (net), note 4.....	\$3,679,298	\$2,546,407
Profit on operations for the year, before accounting for the undernoted items.....	342,412	45,368
Add: Income from investments.....	104,998	122,258
	<u>447,410</u>	<u>167,626</u>
Less: Direct remuneration paid or payable to directors and senior officers as defined in The Securities Act, 1968 (Manitoba).....	189,897	120,802
Interest on indebtedness not initially maturing within one year.....	8,285	8,000
Provision for depreciation and amortization of fixed assets.....	24,814	16,029
	<u>222,996</u>	<u>144,831</u>
OPERATING PROFIT.....	224,414	22,795
Provision for income taxes.....	28,165	—
OPERATING PROFIT AFTER PROVISION FOR INCOME TAXES, note 7.....	<u>196,249</u>	<u>22,795</u>
EXTRAORDINARY ITEMS, note 7		
Profit on disposal of subsidiary.....	—	96,859
Profit on disposal of capital assets.....	—	2,476
	<u>—</u>	<u>99,335</u>
NET PROFIT FOR YEAR, notes 6 and 7.....	<u>\$ 196,249</u>	<u>\$ 122,130</u>

Consolidated Statement of Source and Application of Funds for the Year Ended 31 December 1971

(With comparative figures for the year ended 31 December 1970)

SOURCE OF FUNDS

Operating profit after provision for income taxes.....	\$ 196,249	\$ 22,795
Add: Depreciation, a non-cash outlay.....	24,814	16,029
FUNDS OBTAINED FROM OPERATIONS.....	<u>221,063</u>	<u>38,824</u>
Unsecured debenture, net.....	240,000	—
Proceeds on disposal of capital assets.....	10,972	8,212
Proceeds on disposal of subsidiary.....	—	96,859
Special refundable corporation tax.....	—	6,266
TOTAL SOURCE OF FUNDS.....	<u>472,035</u>	<u>150,161</u>

APPLICATION OF FUNDS

Redemption of Class "C" shares.....	370,104	61,684
Acquisition of intangibles on purchase of shares of subsidiary.....	306,603	—
Acquisition of fixed assets.....	124,363	12,852
Reclassification of cash value of life insurance policies.....	45,822	—
Dividends paid during year—Class "A" shares.....	14,520	14,520
—Class "B" shares.....	18,505	18,505
—Class "C" shares.....	3,701	4,318
15% tax on election under Section 105(c) of the Income Tax Act.....	7,500	—
Payment/reclassification of deferred bank loan.....	—	100,000
TOTAL FUNDS APPLIED.....	<u>891,118</u>	<u>211,879</u>
DECREASE IN CONSOLIDATED WORKING CAPITAL.....	419,083	61,718
Consolidated working capital, beginning of year.....	2,279,834	2,341,552
CONSOLIDATED WORKING CAPITAL, END OF YEAR.....	<u>\$1,860,751</u>	<u>\$2,279,834</u>

